

Message Text

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PAGE 01 ISTANB 03536 220756Z

ACTION EUR-12

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SUBJECT: EFFECTS OF FOREIGN EXCHANGE CRISIS ON INDUSTRY

REF: ISTANBUL 3396

1. INFORMAL SURVEY OF LOCAL INDUSTRY INDICATES THAT MANY IMPORT DEPENDENT FIRMS ARE ALREADY SUFFERING ACUTE PROBLEMS AS RESULT OF LACK OF IMPORTS CAUSED BY FOREIGN EXCHANGE TRANSFER DELAYS. SITUATION VARIES EVEN AMONG COMPANIES IN A SINGLE INDUSTRY HOWEVER; FEW GENERALIZATIONS ARE POSSIBLE.

2. MOST SERIOUSLY AFFECTED ARE AUTOMOTIVE MANUFACTURERS. THREE TRUCK ASSEMBLERS, BMC, OTOSAN (FORD), AND GENOTO (GM), EACH OF WHICH EMPLOYS IN NEIGHBORHOOD OF 2,000 WORKERS REPORTEDLY WILL CLOSE IN NOVEMBER/DECEMBER WITHOUT FURTHER CREDITS FROM SUPPLIERS. BMC AND OTOSAN HAVE ALREADY REDUCED WORK FORCE BY 600-700 ACH. INTERNATIONAL HARVESTER AND TOFAS (FIAT) PROJECT CLOSING END OF YEAR AT REDUCED PRODUCTION RATES. LATTER COMPANY AVOIDED OCTOBER SHUTDOWN BY RECENTLY NEGOTIATING \$9 MILLION IN NEW SUPPLIES

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PAGE 02 ISTANB 03536 220756Z

FROM FIAT. CHRYSLER BELIEVES IT CAN LAST UNTIL FEBRUARY/MARCH 1978 WITH A \$12 MILLION CREDIT RECENTLY EXTENDED BY PARENT, BUT FEARS SHUTDOWN MAY BE FORCED EARLIER BY LACK OF LOCALLY PROCURED COMPONENTS (AXLE SHAFTS, WATER PUMPS, SPRINGS, SHOCKS, BATTERIES). TIRE COMPANIES REPORT THAT PARENT COMPANIES (UNIROYAL, GOODYEAR AND PIRELLI) HAVE CEASED FINANCING NATURAL RUBBER IMPORTS AND ALL THREE COMPANIES WILL EXHAUST PRESENT STOCKS IN

DECEMBER/JANUARY PERIOD. COMPANIES HAVE ADEQUATE STOCKS OF INPUTS SUPPLIED BY STATE PETROCHEMICAL COMPANY (PETKIM) SO CLOSING OF SEVERAL OF PETKIM'S UNITS AS OF LAST MONTH WILL NOT AFFECT THEM IN THE SHORT TERM.

3. PHARMACEUTICAL MANUFACTURERS ARE ALSO CRITICALLY AFFECTED. PFIZER POLICY HAS BEEN TO CONTINUE TO SUPPLY TURKISH SUBSIDIARY ON CREDIT. GERMAN FIRM BAIF, TURKISH MUSTAFA NEVZAT AND SEVERAL OTHER DRUG COMPANIES REPORTEDLY HAVE LAID OFF UP TO 50 PERCENT OF WORKFORCE BECAUSE OF IMPORT PROBLEMS DESPITE GOT POLICY OF TREATING PHARMACEUTICAL IMPORTS AS PRIORITY ITEM.

4. ELECTRONIC ASSEMBLY INDUSTRIES (TV, RADIO) ARE COPING WITH TRANSFER PROBLEM WITH MIXED SUCCESS. ONE SUCH FIRM, UNABLE TO PROCURE FROM JAPAN, HAS ARRANGED FOR EAST GERMAN SUPPLIES ON CREDIT. APPLIANCE COMPANIES' PRINCIPAL PROBLEM IS METAL WORKERS STRIKE WHICH HAS PARALYZED MOST OF THE INDUSTRY SINCE MAY. GE, UNAFFECTED DIRECTLY BY STRIKE, CAN LAST THROUGH END OF YEAR ON INVENTORIES AND PIPELINE, BUT TEN WILL BE DEPENDENT ON IMPORTED STEEL SHEET WHICH IS BOUGHT ON LOCAL MARKET. PROFILO, A REFRIGERATOR MANUFACTURER, IS OPERATING AT HALF CAPACITY BECAUSE OF LACK OF COMPRESSOR COMPONENT PARTS, IMPORTED FROM GERMANY.

5. CURRENT POLICY OF MOST SUPPLIERS, INCLUDING MANY OF THE PARENT FIRMS OF U.S. AND THIRD COUNTRY INVESTMENTS IN TURKEY, IS TO FINANCE ADDITIONAL SUPPLIES DOLLAR FOR DOLLAR ONLY AS FOREIGN LIMITED OFFICIAL USE

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PAGE 03 ISTANB 03536 220756Z

CURRENCY PAYMENTS ARE MADE FOR PREVIOUS IMPORTS. ENCOURAGING DEVELOPMENTS IN GOT/IMF NEGOTIATIONS MAY SOFTEN THIS POLICY IN SOME INSTANCES BUT MOST COMPANIES APPARENTLY WILL BE EXTREMELY RELUCTANT TO EXCEED EXPOSURE LIMITS TO TURKISH CUSTOMERS OR SUBSIDIARIES.

6. ANALYSIS IS COMPLICATED BY PRACTICE OF MANY TURKISH FIRMS OF PAYING FOR IMPORTS WITH THEIR CONCEALED FOREIGN EXCHANGE HELD OUTSIDE TURKEY OR OBTAINED ON BLACK MARKET. AGREEMENTS WITH SUPPLIERS PROVIDE FOR REIMBURSEMENT UPON EVENTUAL TRANSFER OF FOREIGN EXCHANGE BY CENTRAL BANK.

7. COMMENT: MANY LOCAL BUSINESSMEN CLING TO HOPE THAT LARGE CREDIT INFLOWS FROM IMF AND BANKS WILL SOLVE IMPORT PROBLEM SHORTLY, BUT MANY OTHERS NOW REALIZE THAT CREDIT SUFFICIENT TO BRING COMMERCIAL ACCOUNTS CURRENT AND ALSO TO FINANCE THEIR CONTINUING INSATIABLE APPETITE FOR IMPORTS IS NOT LIKELY TO MATERIALIZE. MOST OF OUR BUSINESS CONTACTS ARE INCREASINGLY GLOOMY ABOUT THEIR ECONOMIC PROSPECTS BECAUSE OF THE EXCHANGE CRISIS AND ASSOCIATED ECONOMIC PROBLEMS. THEY ALSO FEAR THAT THE MEASURES THAT WILL BE TAKEN TO RESOLVE THE NATIONAL ECONOMIC CRISIS EVEN IF SUCCESSFUL MAY NOT SOLVE THEIR OWN PRESSING

PROBLEMS.

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